

**LAURENS-MARATHON
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2005

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LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2004 Election)

Thaine Hopkins	President	2006
Brett Barglof	Vice President	2005
Kelly Snyder		2004
Karen Lind		2004
Brett Fehr		2006

(After September, 2004 Election)

Thaine Hopkins	President	2006
Brett Barglof	Vice President	2005
Terry Gunnarson		2007
Nancy Fuchs		2007
Brett Fehr		2006

SCHOOL OFFICIALS

Michael Wright	Superintendent
Susan Wenell	District Secretary/ Treasurer

Independent Auditor's Report

To The Board of Education of the
Laurens-Marathon Community School District:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Laurens-Marathon Community School District, Laurens, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of Laurens-Marathon Community School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 26, 2005 on our consideration of Laurens-Marathon Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Laurens-Marathon Community School District's basic financial statements. We previously audited in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

October 26, 2005

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

Laurens-Marathon Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,371,812 in fiscal 2004 to \$3,416,580 in fiscal 2005, while General Fund expenditures increased from \$3,406,340 in fiscal year 2004 to \$3,432,752 in fiscal 2005. The District's General Fund balance decreased from \$365,973 in fiscal 2004 to \$349,801 in fiscal 2005, a 4% decrease.
- The District received \$41,455 in a federal Small Rural Schools Achievement Grant as part of the Rural Education Achievement Program.
- The District's Certified Enrollment dropped slightly from 435.0 students in September 2003 to 423.00 students in September 2004.
- General Fund revenues increased by 1% despite a 10% decrease in property tax revenues that was due primarily to decreases in ag valuation. State and Federal revenues both increased sufficiently to offset the loss of property tax revenues.
- General Fund Expenditures, increased by 1% as the District worked to curtail discretionary spending.
- PPEL fund revenues and expenses were highly elevated due to a fire that caused more than \$500,000 in damages.
- The District began collecting local option sales tax that is being used for property tax relief and capital projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the general purpose financial statements and required supplementary information.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Laurens-Marathon Community School District

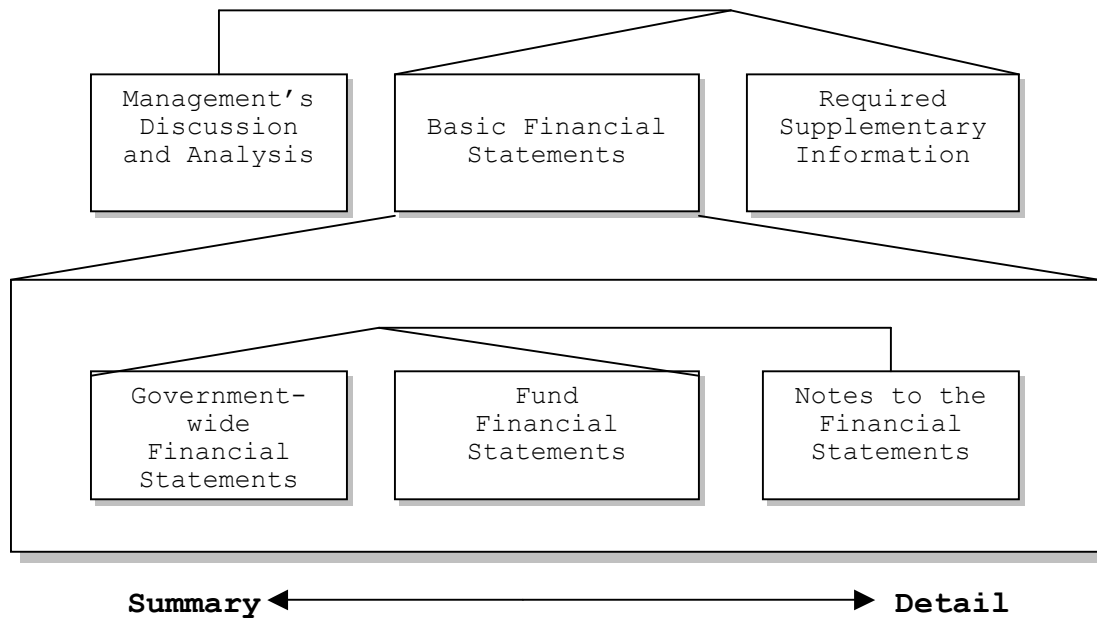


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2

Major Features of the Government-Wide and Fund Financial Statements

	Government-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	. Statement of net assets . Statement of activities	. Balance sheet . Statement of revenues, expenditures, and changes in fund balances	. Statement of net assets . Statement of revenues, expenses and changes in net assets . Statement of cash flows	. Statement of fiduciary net assets . Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The Government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- **Governmental activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid, finance most of these activities.
- **Business-type activities:** The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects and Debt Service Fund. Most of the District's basic services are included here, such as regular education, special education, building and grounds maintenance, transportation, and administration. Most of these activities are funded with property taxes, local option sales tax and state aid financing.

- 2) **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trusts.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-3
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Percentage
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
	\$	\$	\$	\$	\$	\$	
Current assets	2,364	2,337	28	19	2,392	2,356	1.53%
Capital assets	1,366	1,261	16	17	1,382	1,278	8.14%
Total assets	3,730	3,598	44	36	3,774	3,634	3.85%
Current liabilities	1,610	1,705	-	-	1,610	1,705	-5.57%
Non-current liabilities	1,072	1,175	-	-	1,072	1,175	-8.77%
Total liabilities	2,682	2,880	-	-	2,682	2,880	-6.88%
Net Assets							
Invested in capital assets, net of related debt	311	86	16	17	327	103	217.48%
Restricted	258	216	-	-	258	216	19.44%
Unrestricted	479	416	28	19	507	435	16.55%
Total net assets	1,048	718	44	36	1,092	754	44.83%

Total net assets increased over 16% due to the imposition of the local option sales tax and the purchase of a large amount of fixed assets. Fixed asset purchases are depreciated over a period of years, thus minimizing the effect of the purchases on the current period financial statements.

Figure A-4 shows the changes in net assets for the year ended June 30, 2005.

Figure A-4
Change in Net Assets
(expressed in thousands)

	Governmental Activities	Business-type Activities	Total School District
	\$	\$	\$
Revenues:			
Program revenues:			
Charges for service and sales	209	116	325
Operating grants, contributions and restricted interest	1,203	73	1,276
General revenues:			
Property tax	1,532	-	1,532
Income surtax	163	-	163
Local option sales tax	120	-	120
Unrestricted state grants	1,446	-	1,446
Unrestricted investment earnings	5	-	5
Other	133	-	133
Total revenues	<u>4,811</u>	<u>189</u>	<u>5,000</u>
Program expenses:			
Governmental activities:			
Instruction	2,443	-	2,443
Support Services	1,168	-	1,168
Non-instructional programs	-	180	180
Other expenses	870	-	870
Total expenses	<u>4,481</u>	<u>180</u>	<u>4,661</u>
Change in net assets	<u>330</u>	<u>9</u>	<u>339</u>

Property tax and unrestricted state grants account for 60% of the total revenue. The District's expenses primarily related to instruction and support services, which account for 77% of the total expenses. These percentages were significantly lower than in 2004 due to the impact of the fire damage proceeds and rebuilding. It is anticipated that the percentage of expenditures for instruction and support services will near 90% again in the future.

GOVERNMENTAL ACTIVITIES

Revenues for governmental activities were \$4,811,432 and expenses were \$4,481,475.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5		
Total and Net Cost of Governmental Activities		
(expressed in thousands)		
	Total Cost of Services	Net Cost of Services
	\$	\$
Instruction	2,443	1,757
Support Services	1,168	1,154
Other expenses	<u>870</u>	<u>158</u>
Totals	<u>4,481</u>	<u>3,069</u>

- The cost financed by users of the District's programs was \$208,664.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$426,852.
- The net cost of governmental activities was financed with \$1,533,460 in property tax, \$1,445,635 in state foundation aid, and \$4,973 in interest income.

PROPRIETARY-TYPE FUNDS

Revenues for the District's School Nutrition Fund were \$188,504 and expenses were \$179,736. The revenues include charges for services, contributions, and federal and state reimbursements.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The Laurens-Marathon Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the fiscal year, its governmental funds reported a combined fund balance of \$1,047,595, which is 46% greater than last year's ending fund balance of \$717,638.

GOVERNMENTAL FUND HIGHLIGHTS

Several factors contributed to the small increase of the fund balance in the District's governmental funds. Some of these factors were unexpected; some were deliberately planned.

- Collection of local option sales tax and increased state aid as well as careful cost containment measures were primary factors for the increase.
- Decreases in ag land valuations led to a decrease in property tax revenues.

PROPRIETARY FUND HIGHLIGHTS

School Nutrition Fund net assets increased from \$35,495 at June 30, 2004 to \$44,263 at June 30, 2005, representing an increase of approximately 25%.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

It is the District's practice, as is in most Iowa school district, to budget expenditures at or about the maximum authorized spending. As a result, the District's certified budget should always exceed the actual expenditures for the year.

Actual revenues exceeded budgeted amounts by over \$230,000, primarily because of the proceeds from the fire.

CAPITAL ASSETS

The District has invested more than \$3.4 million by the end of fiscal year 2005 in a broad range of capital assets, including school buildings, athletic facilities, kitchen, computers and audio-visual equipment, maintenance equipment, school buses and other vehicles, library holdings, and textbooks. Total depreciation expenses for the year exceeded \$75,000.

Figure A-6
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
	\$	\$	\$	\$	\$	\$	
Land	40	40	-	-	40	40	0.00%
Land improvements	5	-	-	-	5	-	100.00%
Buildings	1,099	1,132	-	-	1,099	1,132	-2.92%
Furniture and equipment	222	89	29	29	251	118	112.71%
Totals	1,366	1,261	29	29	1,395	1,290	8.14%

LONG-TERM DEBT

The District had \$1,055,000 in general obligation bonds outstanding. This represents a decrease of \$120,000 from the previous year. The principal and interest on the bonds will be paid in full by June 1, 2012. The District makes principal and interest payments annually on these bonds using property tax dollars obtained through a debt service levy specifically for these bonds.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- To offset the impact of declining enrollment, the State has provided a budget guarantee provision for districts. This budget guarantee provision is being phased out over a 10 year period. The District was on budget guarantee for Fiscal Year 2005 and will continue to be on budget guarantee for several years to come. Due to previous and continued declining enrollment, the amount of this reduction due to the phase out of the budget guarantee will likely grow over the next several years.
- Possible sharing opportunities with neighboring districts are being explored to bolster the District's financial position.

- The District will continue to be required to comply with unfunded and under funded mandates from the federal and state governments such as the federal No Child Left Behind Act and the state Student Achievement and Teacher Quality Initiative. This will require the District to find ways to provide services in the areas of assessment and professional development, which will divert funds from other student service areas.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Susan Wenell, District Secretary/Treasurer and Business Manager, Laurens-Marathon Community School District, 300 West Garfield, Laurens, IA 50554.

Basic Financial Statements

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
Assets			
Cash	692,042	22,430	714,472
Receivables:			
Property tax:			
Current year	19,604	-	19,604
Succeeding year	1,560,812	-	1,560,812
Income surtax - succeeding year	79,860	-	79,860
Due from other governments	12,001	-	12,001
Inventories	-	5,350	5,350
Capital assets, net of accumulated depreciation	1,365,670	16,483	1,382,153
Total assets	3,729,989	44,263	3,774,252
Liabilities			
Accounts payable	45,546	-	45,546
Accrued interest payable	4,396	-	4,396
Deferred revenue:			
Succeeding year property tax	1,560,812	-	1,560,812
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	130,000	-	130,000
Early retirement	6,880	-	6,880
Portion due after one year:			
General obligation bonds payable	925,000	-	925,000
Early retirement	9,760	-	9,760
Total liabilities	2,682,394	-	2,682,394
Net assets			
Invested in capital assets, net of related debt	310,670	16,483	327,153
Restricted for:			
Management levy	37,476	-	37,476
Physical plant and equipment levy	22,565	-	22,565
Debt service	166,834	-	166,834
Capital projects	31,522	-	31,522
Unrestricted	478,528	27,780	506,308
Total net assets	1,047,595	44,263	1,091,858

See notes to financial statements.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
	\$	\$	\$	\$	\$	\$
<u>Functions/Programs</u>						
Governmental activities:						
Instruction:						
Regular instruction	1,547,663	176,370	150,821	(1,220,472)	-	(1,220,472)
Special instruction	424,609	32,294	145,237	(247,078)	-	(247,078)
Other instruction	470,613	-	180,745	(289,868)	-	(289,868)
	<u>2,442,885</u>	<u>208,664</u>	<u>476,803</u>	<u>(1,757,418)</u>	<u>-</u>	<u>(1,757,418)</u>
Support services:						
Student services	65,597	-	-	(65,597)	-	(65,597)
Instructional staff services	127,975	-	-	(127,975)	-	(127,975)
Administration services	526,245	-	-	(526,245)	-	(526,245)
Operation and maintenance of plant services	307,163	-	14,376	(292,787)	-	(292,787)
Transportation services	83,237	-	447	(82,790)	-	(82,790)
Central support	58,055	-	-	(58,055)	-	(58,055)
	<u>1,168,272</u>	<u>-</u>	<u>14,823</u>	<u>(1,153,449)</u>	<u>-</u>	<u>(1,153,449)</u>
Other expenditures:						
AEA flowthrough	130,364	-	130,364	-	-	-
Long-term debt services	424	-	-	(424)	-	(424)
Long-term debt interest	59,680	-	1,631	(58,049)	-	(58,049)
Facilities acquisition and construction	607,051	-	580,005	(27,046)	-	(27,046)
Depreciation (unallocated) *	72,799	-	-	(72,799)	-	(72,799)
	<u>870,318</u>	<u>-</u>	<u>712,000</u>	<u>(158,318)</u>	<u>-</u>	<u>(158,318)</u>
Total governmental activities	4,481,475	208,664	1,203,626	(3,069,185)	-	(3,069,185)

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

	Program Revenues					
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$	\$	\$	\$
Business-Type activities:						
Non-instructional programs:						
Nutrition services	179,736	115,864	72,640	-	8,768	8,768
Total	<u>4,661,211</u>	<u>324,528</u>	<u>1,276,266</u>	<u>(3,069,185)</u>	<u>8,768</u>	<u>(3,060,417)</u>
General revenues:						
Property tax levied for:						
General purposes				1,191,021	-	1,191,021
Management levy				56,059	-	56,059
Debt service				183,982	-	183,982
Capital outlay				102,398	-	102,398
Income surtax						
General purposes				81,317	-	81,317
Capital outlay				81,317	-	81,317
Local option sales tax				119,522	-	119,522
Unrestricted state grants				1,445,635	-	1,445,635
Unrestricted investment earnings				4,973	-	4,973
Other				132,918	-	132,918
Total general revenue				<u>3,399,142</u>	<u>-</u>	<u>3,399,142</u>
Change in net assets				329,957	8,768	338,725
Net assets beginning of year				<u>717,638</u>	<u>35,495</u>	<u>753,133</u>
Net assets end of year				<u>1,047,595</u>	<u>44,263</u>	<u>1,091,858</u>

* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2005

	General	Debt Service	Capital Projects	Physical Plant and Equipment Levy	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$	\$
Assets						
Cash	377,798	168,957	19,521	23,290	102,476	692,042
Receivables:						
Property tax:						
Current year	14,883	2,273	-	1,755	693	19,604
Succeeding year	1,225,985	94,750	-	140,077	100,000	1,560,812
Income surtax - succeeding year	39,930	-	-	39,930	-	79,860
Due from other governments	-	-	12,001	-	-	12,001
Total assets	<u>1,658,596</u>	<u>265,980</u>	<u>31,522</u>	<u>205,052</u>	<u>203,169</u>	<u>2,364,319</u>
Liabilities and Fund Balance						
Liabilities:						
Accounts payable	42,880	-	-	2,480	186	45,546
Deferred revenue:						
Succeeding year property tax	1,225,985	94,750	-	140,077	100,000	1,560,812
Succeeding year income surtax	39,930	-	-	39,930	-	79,860
Total liabilities	<u>1,308,795</u>	<u>94,750</u>	<u>-</u>	<u>182,487</u>	<u>100,186</u>	<u>1,686,218</u>
Fund balances:						
Reserved for debt service	-	171,230	-	-	-	171,230
Reserved for capital projects	-	-	31,522	-	-	31,522
Unreserved	349,801	-	-	22,565	102,983	475,349
Total fund balances	<u>349,801</u>	<u>171,230</u>	<u>31,522</u>	<u>22,565</u>	<u>102,983</u>	<u>678,101</u>
Total liabilities and fund balances	<u>1,658,596</u>	<u>265,980</u>	<u>31,522</u>	<u>205,052</u>	<u>203,169</u>	<u>2,364,319</u>

See notes to financial statements.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2005

Total fund balances of governmental funds (Exhibit C)		\$ 678,101
Amounts reported for governmental activities in the statement of net assets are different because:		
Income surtax receivable at June 30, 2005 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets.		79,860
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		1,365,670
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(4,396)
Long-term liabilities, including bonds and early retirement, are not due and payable in the current period and, therefore, are not reported in the funds.		
General obligation bonds	(1,055,000)	
Early retirement	<u>(16,640)</u>	<u>(1,071,640)</u>
Net assets of governmental activities (Exhibit A)		<u><u>\$ 1,047,595</u></u>

See notes to financial statements.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2005

	General	Debt Service	Capital Projects	Physical Plant and Equipment Levy	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources						
Local tax	1,233,353	183,982	119,522	183,715	56,059	1,776,631
Tuition	203,539	-	-	-	-	203,539
Other	107,518	1,478	-	579,887	190,032	878,915
State sources	1,724,631	153	-	118	46	1,724,948
Federal sources	147,539	-	-	-	-	147,539
Total revenues	<u>3,416,580</u>	<u>185,613</u>	<u>119,522</u>	<u>763,720</u>	<u>246,137</u>	<u>4,731,572</u>
Expenditures:						
Current:						
Instruction:						
Regular instruction	1,483,592	-	-	17,532	54,133	1,555,257
Special instruction	424,609	-	-	-	-	424,609
Other instruction	317,695	-	-	-	176,703	494,398
	<u>2,225,896</u>	<u>-</u>	<u>-</u>	<u>17,532</u>	<u>230,836</u>	<u>2,474,264</u>
Support services:						
Student services	65,597	-	-	-	-	65,597
Instructional staff services	137,467	-	-	-	-	137,467
Administration services	428,549	-	-	97,696	-	526,245
Operation and maintenance of plant services	298,144	-	-	-	22,098	320,242
Transportation services	88,680	-	-	-	9,825	98,505
Central support services	58,055	-	-	-	-	58,055
	<u>1,076,492</u>	<u>-</u>	<u>-</u>	<u>97,696</u>	<u>31,923</u>	<u>1,206,111</u>

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2005

	General	Debt Service	Capital Projects	Physical Plant and Equipment Levy	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$	\$
Other expenditures:						
AEA flowthrough	130,364	-	-	-	-	130,364
Long-term debt:						
Services	-	424	-	-	-	424
Principal	-	120,000	-	-	-	120,000
Interest	-	60,310	-	-	-	60,310
Facilities acquisition and construction	-	-	-	698,401	-	698,401
	<u>130,364</u>	<u>180,734</u>	<u>-</u>	<u>698,401</u>	<u>-</u>	<u>1,009,499</u>
 Total expenditures	 <u>3,432,752</u>	 <u>180,734</u>	 <u>-</u>	 <u>813,629</u>	 <u>262,759</u>	 <u>4,689,874</u>
 Excess (deficiency) of revenues over (under) expenditures	 (16,172)	 4,879	 119,522	 (49,909)	 (16,622)	 41,698
 Other financing sources (uses):						
Operating transfers in	-	88,000	-	-	-	88,000
Operating transfers out	<u>-</u>	<u>-</u>	<u>(88,000)</u>	<u>-</u>	<u>-</u>	<u>(88,000)</u>
	<u>-</u>	<u>88,000</u>	<u>(88,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Net changes in fund balance	 (16,172)	 92,879	 31,522	 (49,909)	 (16,622)	 41,698
 Fund balances beginning of year	 <u>365,973</u>	 <u>78,351</u>	 <u>-</u>	 <u>72,474</u>	 <u>119,605</u>	 <u>636,403</u>
 Fund balances end of year	 <u><u>349,801</u></u>	 <u><u>171,230</u></u>	 <u><u>31,522</u></u>	 <u><u>22,565</u></u>	 <u><u>102,983</u></u>	 <u><u>678,101</u></u>

See notes to financial statements.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2005

Net change in fund balances - total governmental funds (Exhibit E)	\$ 41,698
Amounts reported for governmental activities in the statement of activities are different because:	
Income surtax receivable at June 30, 2005 is not recognized as income until received in the governmental funds, however it is shown as a revenue in the Statement of Activities.	79,860
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:	
Capital outlays	177,208
Depreciation expense	(72,799)
Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	120,000
Early retirement expenses recorded in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	(16,640)
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	630
Change in net assets of governmental activities (Exhibit B)	<u>\$ 329,957</u>

See notes to financial statements.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Fund

Year ended June 30, 2005

	School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for services	<u>115,864</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	65,247
Benefits	10,224
Services	6,408
Supplies	93,349
Depreciation	<u>4,508</u>
Total operating expenses	<u>179,736</u>
Operating (loss)	<u>(63,872)</u>
Non-operating revenues:	
State sources	2,413
Federal sources	70,068
Interest income	<u>159</u>
	<u>72,640</u>
Changes in net assets	8,768
Net assets beginning of year	<u>35,495</u>
Net assets end of year	<u><u>44,263</u></u>

See notes to financial statements.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Fund

Year ended June 30, 2005

	School Nutrition
	\$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	115,864
Cash payments to employees for services	(75,471)
Cash payments to suppliers for goods or services	(85,501)
Net cash (used in) operating activities	<u>(45,108)</u>
Cash flows from non-capital financing activities:	
State grants received	2,413
Federal grants received	59,869
Net cash provided by non-capital financing activities	<u>62,282</u>
Cash flows from capital financing activities:	
Acquisition of fixed assets	(4,350)
Cash flows from investing activities:	
Interest on investments	<u>159</u>
Net (decrease) in cash and cash equivalents	12,983
Cash and cash equivalents beginning of year	<u>9,447</u>
Cash and cash equivalents end of year	<u><u>22,430</u></u>
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating (loss)	(63,872)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:	
Depreciation	4,508
Commodities used	10,199
Decrease in inventory	4,057
	<u>(45,108)</u>
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current assets:	
Cash	<u><u>22,430</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received federal commodities valued at \$10,199

See notes to financial statements.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Funds

Year ended June 30, 2005

	Private Purpose Trusts Scholarships
	<u>\$</u>
Assets	
Cash	<u>172,843</u>
Total assets	<u>172,843</u>
Net Assets	
Reserved for specific purposes	<u>172,843</u>
Total net assets	<u><u>172,843</u></u>

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

Year ended June 30, 2005

	Private Purpose Trusts <u>Scholarships</u>
	\$
Additions:	
Local sources:	
Miscellaneous	<u>31,877</u>
Total additions	<u>31,877</u>
Deductions:	
Support services:	
Other	<u>27,485</u>
Total deductions	<u>27,485</u>
Change in net assets	4,392
Net assets beginning of year	<u>168,451</u>
Net assets end of year	<u><u>172,843</u></u>

See notes to financial statements.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

The Laurens-Marathon Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the Cities of Laurens and Marathon, Iowa, and agricultural area in Palo Alto, Buena Vista and Pocahontas Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Laurens-Marathon Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District.

The Laurens-Marathon Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Pocahontas County Assessor Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statements of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The Physical Plant and Equipment Levy is used for the acquisition of capital assets (over \$500) and the maintenance and purchase of land improvements and facilities.

The Debt Service Fund is used to account for the payment of interest and principal on the District's long-term debt.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. the District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used for scholarship payments.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are invested in interest bearing accounts. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2004.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	10,000
Other furniture and equipment	10,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2005.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Disbursements did not exceed the amounts budgeted in any of the four functions.

(2) Cash

The District's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 40,213	-	-	40,213
Capital assets being depreciated:				
Land improvements	165,868	4,500	-	170,368
Buildings	2,089,038	-	-	2,089,038
Furniture and Equipment	969,990	172,708	-	1,142,698
Total capital assets being depreciated	3,224,896	177,208	-	3,402,104
Less accumulated depreciation for:				
Land improvements	165,868	180	-	166,048
Buildings	956,940	33,121	-	990,061
Furniture and Equipment	881,040	39,498	-	920,538
Total accumulated depreciation	2,003,848	72,799	-	2,076,647
Total capital assets being depreciated, net	1,221,048	104,409	-	1,325,457
Governmental activities, capital assets, net	1,261,261	104,409	-	1,365,670

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Furniture and equipment	49,741	4,350	-	54,091
Less accumulated depreciation	<u>33,100</u>	<u>4,508</u>	<u>-</u>	<u>37,608</u>
Business type activities capital assets, net	<u>\$ 16,641</u>	<u>(158)</u>	<u>-</u>	<u>16,483</u>

Depreciation expense was charged to the following functions:

Governmental activities:

Unallocated 72,799

Business Type activities:

Food service operations \$ 4,508

(4) Bonds Payable

Details of the District's June 30, 2005 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue as of October 1, 1996			
	Interest Rates	Principal	Interest	Total
2006	5.00%	\$ 130,000	52,750	182,750
2007	5.00	135,000	46,250	181,250
2008	5.00	140,000	39,500	179,500
2009	5.00	150,000	32,500	182,500
2010	5.00	160,000	25,000	185,000
2011	5.00	165,000	17,000	182,000
2012	5.00	<u>175,000</u>	<u>8,750</u>	<u>183,750</u>
Total		<u>\$1,055,000</u>	<u>221,750</u>	<u>1,276,750</u>

(5) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2005 is as follows:

	General Obligation Bond	Early Retirement	Total
Balance beginning of year	\$1,175,000	-	1,750,000
Additions	-	16,640	16,640
Reductions	<u>120,000</u>	<u>-</u>	<u>120,000</u>
Balance end of year	<u>\$1,055,000</u>	<u>16,640</u>	<u>1,071,640</u>

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$126,927, \$126,620 and \$121,288 respectively, equal to the required contributions for each year.

(7) Risk Management

Laurens-Marathon Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$130,364 for year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-nine and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to 50% of the employee's base salary calculated by using the current year regular salary schedule less any other additional pay and subject to a maximum of \$20,000 per individual. Early retirement benefits paid during the year ended June 30, 2005 totaled \$10,250.

(10) Interfund Transfers

The detail of Interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	<u>\$88,000</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

Required Supplementary Information

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Original</u>	<u>Final</u>	<u>Variance -</u>
	\$	\$	\$	\$	\$	\$
Receipts:						
Local sources	2,841,416	116,023	2,957,439	2,588,605	2,588,605	368,834
State sources	1,724,948	2,413	1,727,361	1,851,475	1,851,475	(124,114)
Federal sources	147,539	59,869	207,408	220,000	220,000	(12,592)
Total receipts	<u>4,713,903</u>	<u>178,305</u>	<u>4,892,208</u>	<u>4,660,080</u>	<u>4,660,080</u>	<u>232,128</u>
Disbursements:						
Instruction	2,541,385	-	2,541,385	3,136,463	3,136,463	595,078
Support services	1,206,111	-	1,206,111	1,494,554	1,494,554	288,443
Non-instructional programs	-	165,322	165,322	254,322	254,322	89,000
Other expenditures	959,499	-	959,499	513,545	1,000,000	40,501
Total disbursements	<u>4,706,995</u>	<u>165,322</u>	<u>4,872,317</u>	<u>5,398,884</u>	<u>5,885,339</u>	<u>1,013,022</u>
Excess (deficiency) of receipts over (under) disbursements	6,908	12,983	19,891	(738,804)	(1,225,259)	1,245,150
Other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	6,908	12,983	19,891	(738,804)	(1,225,259)	1,245,150
Balance beginning of year	<u>685,134</u>	<u>9,447</u>	<u>694,581</u>	<u>852,010</u>	<u>852,010</u>	<u>(157,429)</u>
Balance end of year	<u><u>692,042</u></u>	<u><u>22,430</u></u>	<u><u>714,472</u></u>	<u><u>113,206</u></u>	<u><u>(373,249)</u></u>	<u><u>1,087,721</u></u>

See accompanying independent auditor's report.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Type		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 4,713,903	17,669	4,731,572
Expenditures	<u>4,706,995</u>	<u>(17,121)</u>	<u>4,689,874</u>
Net	6,908	34,790	41,698
Other financing sources (uses)	-	-	-
Beginning fund balances	<u>685,134</u>	<u>(48,731)</u>	<u>636,403</u>
Ending fund balances	<u><u>\$ 692,042</u></u>	<u><u>(13,941)</u></u>	<u><u>678,101</u></u>

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 178,305	10,199	188,504
Expenditures	<u>165,322</u>	<u>14,414</u>	<u>179,736</u>
Net	12,983	(4,215)	8,768
Beginning fund balances	<u>9,447</u>	<u>26,048</u>	<u>35,495</u>
Ending fund balances	<u><u>\$ 22,430</u></u>	<u><u>21,833</u></u>	<u><u>44,263</u></u>

See accompanying independent auditor's report.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year-end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$486,455.

During the year ended June 30, 2005, disbursements did not exceed the amount budgeted in any of the four functions. The District did not exceed the General Fund unspent authorized budget.

Other Supplementary Information

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet

Nonmajor Special Revenue Funds

June 30, 2005

	Management	Student Activity	Total
	\$	\$	\$
Assets			
Cash and pooled investments	53,609	48,867	102,476
Property tax receivable:			
Current year	693	-	693
Succeeding year	100,000	-	100,000
Income surtax succeeding year	-	-	-
Total assets	<u>154,302</u>	<u>48,867</u>	<u>203,169</u>
Liabilities and Fund Equity			
Liabilities:			
Accounts payable	186	-	186
Deferred revenue:			
Succeeding year property tax	100,000	-	100,000
Succeeding year income surtax	-	-	-
	<u>100,186</u>	<u>-</u>	<u>100,186</u>
Fund equity:			
Unreserved fund balance	<u>54,116</u>	<u>48,867</u>	<u>102,983</u>
	<u>54,116</u>	<u>48,867</u>	<u>102,983</u>
Total liabilities and fund equity	<u>154,302</u>	<u>48,867</u>	<u>203,169</u>

See accompanying independent auditor's report.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances

Nonmajor Special Revenue Funds

Year ended June 30, 2005

	Management	Student Activity	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	56,059	-	56,059
Other	14,330	175,702	190,032
State sources	46	-	46
Federal sources	-	-	-
Total revenues	<u>70,435</u>	<u>175,702</u>	<u>246,137</u>
Expenditures:			
Instruction:			
Regular instruction	54,133	-	54,133
Co-curricular instruction	-	176,703	176,703
Support services:			
Administration services	-	-	-
Plant operation and maintenance	22,098	-	22,098
Student transportation	<u>9,825</u>	<u>-</u>	<u>9,825</u>
Total expenditures	<u>86,056</u>	<u>176,703</u>	<u>262,759</u>
(Deficiency) of revenues (under) expenditures and other financing uses	(15,621)	(1,001)	(16,622)
Fund balances beginning of year	<u>69,737</u>	<u>49,868</u>	<u>119,605</u>
Balance end of year	<u><u>54,116</u></u>	<u><u>48,867</u></u>	<u><u>102,983</u></u>

See accompanying independent auditor's report.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Speech Trip	1,151	40	879	312
Speech	-	5,269	4,419	850
Vocal Trip	9,878	7,987	8,661	9,204
Band Trip	3,106	2,891	719	5,278
Spanish Trip	4,354	4,316	7,919	751
Band Uniforms	314	-	-	314
Cheerleaders	-	5,458	5,458	-
Towel Fees	73	-	-	73
Athletics	610	61,690	71,192	(8,892)
Athletic Uniforms	3,794	13,000	10,135	6,659
Interest	86	1,204	1,230	60
HS Special Needs	2,645	1,075	337	3,383
LD Special Needs	40	-	-	40
Annual 06	-	2,000	-	2,000
Annual 05	2,000	5,802	6,480	1,322
Annual 04	3,582	3,138	6,720	-
Annual General	-	2,137	-	2,137
Concessions	-	2,656	-	2,656
TAG	103	309	377	35
American Heart Association	29	2,063	2,092	-
MS Guidance	121	-	69	52
Student Council	-	937	937	-
Class of 2004	477	-	477	-
Class of 2005	2,684	930	1,843	1,771
Class of 2006	2,258	9,148	8,998	2,408
Class of 2007	742	5,933	3,154	3,521
Graduated Seniors	978	489	91	1,376
Drill Team	3,686	3,953	4,572	3,067
National Honor Society	-	79	79	-
FFA	4,216	31,965	29,525	6,656
Home Ec	63	-	-	63
Character Counts	2,878	1,233	340	3,771
Total	49,868	175,702	176,703	48,867

See accompanying independent auditor's report.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Net Assets

Private Purpose Trusts

Year ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Blomgren Fund	18,507	6,750	1,944	23,313
Scholarship Fund	12,530	21,046	18,725	14,851
Marker Fund	30	300	300	30
Huey Korrekt Band Fund	675	-	-	675
Playground Fund	452	-	-	452
Scholarship Savings	3,108	1,395	1,503	3,000
Wal-Mart/Waters	1,000	-	953	47
Hakes Scholarship	12,520	189	250	12,459
Nonneman Scholarship	10,000	155	459	9,696
Gilchrist Scholarship	10,014	301	150	10,165
Halder Scholarship	5,000	100	100	5,000
Ludwig Scholarship	16,500	330	330	16,500
Hovenden Scholarship	25,001	500	500	25,001
Whitfield Scholarship	3,000	60	60	3,000
Ryon Scholarship	10,000	200	200	10,000
Sindergard Scholarship	586	-	-	586
Wright Scholarship	5,838	88	896	5,030
Hoffman Scholarship	15,000	300	300	15,000
Kees Scholarship	10,000	150	150	10,000
Puritan Scholarship	652	13	665	-
B Peterson Scholarship	8,038	-	-	8,038
Total	168,451	31,877	27,485	172,843

See accompanying independent auditor's report.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Comparison of Taxes and Intergovernmental Revenues

Governmental Fund Types

	Years ended June 30,			
	2005	2004	2003	2002
	\$	\$	\$	\$
Local sources:				
Local tax:				
Property tax	1,573,607	1,722,921	1,689,906	1,560,387
Mobile home tax	728	2,887	2,313	552
Income surtax	82,774	74,720	80,102	41,708
Local option sales tax	119,522	-	-	-
	<u>1,776,631</u>	<u>1,800,528</u>	<u>1,772,321</u>	<u>1,602,647</u>
State sources:				
State foundation aid	1,444,631	1,287,437	1,364,887	1,361,150
School improvement and technology	-	-	-	9,617
AEA flow through	130,364	131,938	149,652	150,719
Instructional support	14,568	13,352	14,693	16,258
Educational excellence program:				
Phase I	28,875	27,972	28,181	28,181
Phase II	34,679	35,267	37,327	38,442
Phase III	-	-	9,490	21,968
Revenue in lieu of taxes - military credit	1,322	1,345	1,314	1,516
Vocational aid	3,031	3,269	3,799	4,078
Employability Skills Assessment	-	-	-	-
Iowa Early Intervention Block Grant	24,643	23,687	25,943	27,096
Evaluator training	-	-	1,000	-
Teacher quality and improvement program	40,429	36,335	32,104	33,221
Teacher mentoring program	1,300	2,600	2,600	2,600
Other	1,106	12,801	-	-
	<u>1,724,948</u>	<u>1,576,003</u>	<u>1,670,990</u>	<u>1,694,846</u>
Federal sources:				
Class Size Reduction	-	-	-	6,650
Improving Teacher Quality - Grants to States	14,737	14,802	11,718	-
Special Education - Basic Grants to States	30,232	8,598	14,470	4,865
Safe and Drug Free Schools	-	2,254	2,226	801
Title I Grants to Local Educational Agencies	50,439	59,109	50,863	39,968
Vocational Education - Basic Grants to States	4,712	4,842	2,879	2,713
Innovative Education Program Strategies	2,302	2,203	2,396	2,395
Grants for Assessments and Related Activities	2,658	2,682	2,216	-
Rural Education Achievement Program	41,455	42,167	38,664	-
Fire Safety Grant	-	50,000	25,000	-
Other	1,004	-	-	-
	<u>147,539</u>	<u>186,657</u>	<u>150,432</u>	<u>57,392</u>
Total	<u>3,649,118</u>	<u>3,563,188</u>	<u>3,593,743</u>	<u>3,354,885</u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

To the Board of Education of the
Laurens-Marathon Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Laurens-Marathon Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 26, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Laurens-Marathon Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 05-I-A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Laurens-Marathon Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Laurens-Marathon Community School District and other parties to whom Laurens-Marathon Community School District may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Laurens-Marathon Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

October 26, 2005

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

05-I-A SEGREGATION OF DUTIES

Comment - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response acknowledged.

Part II: Other Findings Related to Required Statutory Reporting:

05-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

05-II-B Certified Budget - Disbursements for the year ended June 30, 2005, did not exceed the certified budget amounts.

05-II-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

05-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

05-II-E Business Transactions - No Business transactions between the District and District officials or employees were noted.

05-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

05-II-G Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.

LAURENS-MARATHON COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Required Statutory Reporting:
(continued):

- 05-II-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 05-II-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 05-II-J Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.